

Challenge

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CHALLENGE NOTES

Economic generalizations about the future; our growing population and the labor force; to consume or not to consume; too big to compete?

BUSINESS has been so good lately that many economists have begun to worry. This is as it should be. For, ours is a changing economy, and it is the economist's job to anticipate all eventualities. As a student of long-term trends, he might detect soft spots that the rest of us, preoccupied with the unquestioned prosperity of the moment, would tend to overlook. On the other hand, most of our estimates of the future are based upon our knowledge of the past, and it is *not* always true that history repeats itself.

Ricardo, writing in 19th Century England when the labor force was growing faster than the supply of available jobs, concluded that wages could not for long rise above "that price which is necessary to enable the laborers, one with another, to subsist."

Henry C. Carey, living in 19th Century America when labor was often in short supply, concluded that wages were bound to rise.

Both men were writing from "experience." But the fact that Carey proved right does not mean that he was the better economist. What it does mean is that Carey lived in America, where history (rising wages) repeated itself, while Ricardo lived in England where history (subsistence wages) did not repeat itself.

When economists warn, therefore, that we can expect unemployment or inflation unless we take thus-and-such precautions, what they really mean is that if *present trends follow the same course as in the past*, these things are possible. But history is often "illogical," and to force her to be otherwise is a dangerous business—as the rulers of planned economies have found out.

Expanding the Economy

ONE THING that is bothering some economists is the fear that output is not rising fast

enough to absorb the great increase which is expected to occur in the labor force as soon as our bumper crop of war and postwar babies reaches working age.

Dr. Leon Keyserling, who was chairman of the Council of Economic Advisers during the Truman Administration, recently testified before the Congress that the estimated 3 percent increase in the nation's output will be inadequate and will, in fact, lead to an increase in unemployment. In order to have "maximum employment," Dr. Keyserling said, we must expand our output at an annual rate of 6 percent. It seems to us that Dr. Keyserling has a point when he stresses the importance of an expanding economy in a country with a rising population. It is when he assumes that he can predict at what rate it *should* expand—and comes up with a plan which will make it expand at that rate—that we begin to get skeptical.

For example, do we really know at what rate our labor force is going to increase? Many economists believe that such factors as later entry into the labor force and earlier retirement mean that population increases will not, in the future, be followed by comparable increases in the size of the labor force. They feel that we may, in fact, be confronted with labor shortages rather than

surpluses. According to these economists, the thing to watch out for is inflation. Who is right? We do not presume to know, but the very fact that either (or neither) may be right, makes it appear presumptuous for anyone to "tell" the economy by how much it must grow—and in what way it should grow.

Artificial Pick-me-ups

THE TROUBLE with "planning" for growth at the production end is that peacetime commodities must be consumed or, in the case of machinery and capital goods, must contribute to consumption. In a dynamic economy like ours, nobody really knows what goods will be consumed a year from now, let alone fifty.

On the one hand, our technology constantly creates new goods and does away with the need for old ones. On the other hand, consumers are human beings whose decisions to buy or not to buy are not altogether predictable—or, at least, are not motivated by purely economic considerations. The fact of the matter is we know very little about what *does* prompt people to buy, save or invest.

Yet, as Paul Mazur points out (*see page 43*), finding new markets by creating "new" desires out of old desires is the surest

way to create the jobs we need and raise our standard of living at the same time. Unfortunately, Mazur reminds us, new desires do not emerge spontaneously. The fact that a commodity has been produced and that we have the money to buy it certainly does not mean that we will buy it.

Creating jobs and boosting purchasing power by increasing Government spending, subsidizing business or cutting taxes will not provide for economic growth—unless it is accompanied by new economic wants. All too often, such artificial pick-me-ups have led to an inflationary fever, with wholesalers and retailers accumulating goods on their shelves faster than the consumer can, or desires to, buy them.

Guessing Future Tastes

THIS business of guessing what the consumer is going to do with his income becomes increasingly complicated as we learn more about it. Today, nearly every major producer of consumer goods retains a market-research firm as consultants to its own marketing specialists. More and more, such organizations, staffed with trained psychologists, economists and statisticians, are trying to discover not only *what* consumers buy, but *why*.

The reason for this is obvious.

The modern company cannot expect to stay in business by selling the same products year in and year out. Whether the product be cookies or toothpaste, ice cream or automobiles, competition demands constant adaptation and improvement. Such adaptation amounts to a sizable investment, which, if it does not pay off, can lead to heavy losses.

Small wonder, then, that most companies take the precaution of first finding out why people buy automobiles, toothbrushes, etc., before they set about making better models—or, at least, more popular ones. Prof. Albert Lauterbach, who has devoted a good deal of thought to this and other aspects of “psycho-economics,” discusses (*see page 6*) some of the applications of this kind of research to advertising, packaging, public relations, etc. More and more, he believes, success in business means guessing the consumer’s *future* tastes, styles, needs, and devising new products that will satisfy those needs before the competition gets there.

Reflections on “Bigness”

COMPETITION—or rather the supposed lack of it—has been another source of anxiety. The recent wave of mergers, even if, as Dr. Irwin M. Stelzer points out (*see page 10*), it has been of less

than tidal proportions, has certainly served to emphasize the unquestioned fact that in particular industries "bigness" is one of the essentials of business survival. But is bigness really incompatible with competition?

A little reflection should convince us that the size of a company does not tell us very much about the degree of competition it practices. De Beers Ltd., which enjoys an absolute monopoly over the world's supply of diamonds—although General Electric's laboratory diamond may well put a serious dent in that monopoly—is a big company, but it is not as big as U. S. Steel or General Motors, who must continually meet the stiffest kind of competition.

It is a truism that the only way to compete in a market where all the major rivals are giants is to become a giant yourself. Few people would deny, for example, that the net effect of the recent merger of Packard and Studebaker will be an increase rather than a decline of competition in the auto industry.

Bigness, moreover, often increases efficiency and reduces costs, thus enabling the consumer to enjoy lower prices and better-quality goods. More and more, economists are abandoning size or even share of market serviced as proper criteria for judging the

competitiveness of an industry. Instead, they are looking for a new yardstick, one that will put the major emphasis on responsiveness to consumer needs.

Worry, Worry, Worry . . .

ACADEMIC economists are not the only ones concerned over our economic health. Businessmen are worrying about competition (foreign), production costs and taxes. The coal industry wants to be protected against oil imports, and the oil industry is looking a little anxiously at atomic energy. Union leaders are wary of automation—which, they feel, they must be "protected" against. Farmers complain that their receipts for cattle are too low; housewives complain that prices for steaks are too high; and Agriculture officials are considering converting some of our surplus butter into *ghee*, a form of "clarified butter," to which Indians and Burmese are partial.

All of us have, at one time or another, been concerned over unpaid bills, overdue mortgages, income taxes and a depreciating dollar. Only in those unbearably "perfect" states envisioned by philosophers are such worries done away with.

And yet, with all our worries—perhaps because of them—the American economy is the eighth wonder of the world. ■

Sellers and Buyers are People

by Albert Lauterbach

A better understanding of what makes a consumer "tick" has brought about changes in the way companies compete

BUSINESSMEN have long been irritated by the frequent failure of consumers to respond to price cuts, or by the sudden surge of consumer buying which has caught them flat-footed. To these experiences has now been added the question of whether the old image of competition among firms for the consumers' favor still holds true—if, indeed, it ever did.

How realistic is it for firms, in the spirit of expansion, to try to snatch a little segment of existing markets from one another rather than to explore social trends that are likely to generate new consumer attitudes and needs? Much of the enormous advertising activity may be addressed to a consumer who no longer exists, and perhaps never did exist.

Catching up with the real consumer remains a formidable task for many firms. It is doubtful

whether more than a few of them can hope to survive by selling goods—by way of high-pressure techniques—which the consumer does not really want or need. Recent research in consumer attitudes is beginning to persuade businessmen, even reluctant ones, that their function is not to dump unwanted materials on a confused consumer, but to understand and anticipate his real attitudes and needs.

Moreover, advertising and selling based mainly on asserted price advantages may become out of tune with the basic attitudes of an increasing number of consumers. To begin with, the greatest competitor of many a company today is no longer another company, but the consumer's savings account. Americans save more today than they did before World War II, not only absolutely but relatively in most income groups. There is some disagreement as to

when this is socially desirable, as an instrument of capital formation and family security, and when it is undesirable, as a factor in "oversaving" and "underspending." But from the viewpoint of an individual firm, it is the general saving attitude that matters. A competitor may be in no better position if the potential consumer buys from neither company because he prefers to take his money to a savings bank. And the reason why he prefers this may be unrelated to the price of the product, its quality or the company's reputation.

If the consumer *has* a basic predisposition to buy, price may or may not be the guiding factor in shaping his specific decision. He may buy at a high price, if he expects prices to go up even more; or if he (rightly or wrongly) associates high price with good quality; or if he has adopted a group standard of spending freely. In a different psychological situation, old-fashioned price reductions will have the traditional stimulating effect on the consumer. The basic attitude may, in this case, be momentarily centered either on strictly financial considerations, or on proving to

himself and to others how smart he is in finding the lowest offer.

In still another instance, prices will receive relatively little attention one way or another compared with the service supplied by the company to its customers, or with the security that an established brand name appears to convey. Sometimes credit facilities will be more appreciated than brand names, low prices or good service. On the other hand, installments and charge accounts may not be utilized if the consumer associates them with debt, especially if he has been conditioned by his upbringing to consider debt an evil or sin under all circumstances.

SOcial insight will be especially necessary for the businessman who attempts new product research and development in anticipation of consumer desires in the future. Economists these days put little faith in the old idea that the consumer, in his omniscience, will lead on in telling business what to offer next. The best the consumer can do is to express disapproval by not buying a new product—after it has been developed and offered. The development itself, however, requires initiative on the part of business, and the most ingenious initiative will yield little market success unless it is based on a realistic appraisal of the attitudes, desires

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and motives of the consumer.

The history of many companies which today fall in the category of "big business" shows such appraisal of consumer needs carried through successfully—though often intuitively—along with other factors that favored growth. Swift & Co. perceived the possibility that the refrigerator car would revolutionize meat packing and assure controlled quality and freshness; and it supplemented this innovation by diversifying its product lines. Johns-Manville began really to grow when it embarked on a conscious effort to adapt its products to consumers' problems—through sales engineering. For General Electric, one of the most important decisions was made in the early twenties, when it added consumer appliances to its earlier line of electrical machinery. International Harvester succeeded through concentration on the best total line of farm equipment. In other cases, companies misjudged consumer needs and stagnated—unless other influences came to their aid.

What does this growing need to anticipate consumer attitudes and the whole changing relationship between business and consumer do to competition? Quite a few things. To begin with, the businessman's concept of competition has always been quite different from the economic theo-

rist's. The latter, it is true, has attempted in the last twenty years to supplement his earlier concepts of "perfect" competition with those of "imperfect" competition, taking into consideration the intrinsic limitations to competition due to product differentiation or local peculiarities. Even so, in this new version there is still little approximation to the businessman's concept of everyday competition: rivalry aiming ultimately to achieve a well-defined, safe and perhaps exclusive position in the market either for his company or for an established group of companies.

For the purpose of this discussion, it suffices to realize that competitive underselling has now become only one of several rivalry situations, and perhaps not the most important one. The appeal to the consumer may be focused not on real or claimed price advantages of a particular automobile, for example, but on its power, on its safety features and on its public standing as a symbol of wealth, success or smartness in design.

COMPETITION these days is increasingly centered on developing general consumer confidence in the company and in its product; on the kind of quality or service that meets consumer preferences; and on foolproof information con-

cerning the attitudes, motives and presumable behavior of the consumer at a given time. For these reasons, company mergers in our period are frequently motivated by the wish to offer the consumer a full line of products, even when a merger is not entirely justifiable from the point of view of productive efficiency. The idea is to make the consumer associate the bulk of his regular purchase needs with one company. The expansion of General Foods, for example, has been greatly influenced by such tendencies.

We may be approaching the point where competition among companies will often recede into the background compared with the managerial urge for self-assertion through as efficient a performance as possible. Instead of looking continuously over his shoulder to see whether or not the other fellows are catching up with him just yet, the manager may more often look forward to see whether he is heading to a meeting point with his consumers. And, he may also be looking at himself much of the time in order to make sure that his performance is at its best levels.

THERE are also strong indications that the executive hierarchies of large corporations are developing additional, and sometimes different motives for their conduct of

business. Some of the competition now takes place within a corporation—among individual executives, groups and departments. To the extent that competitive urges turn on other companies, they may be both motivated and limited by the desire to capture and keep a share of the market.

This desire for a definite share of the market often spurs long-range planning for survival through innovation. The consumer may be in for new products that he does not even imagine, let alone desire, right now. He may then enjoy introductory prices that are based on future turnover targets, even though such prices promise no profit for quite a while.

Needless to say, the opposite situation—that is, exploitation of a monopolistic position by a firm once the consumer's interest has been aroused—may also happen, at a different stage of the game.

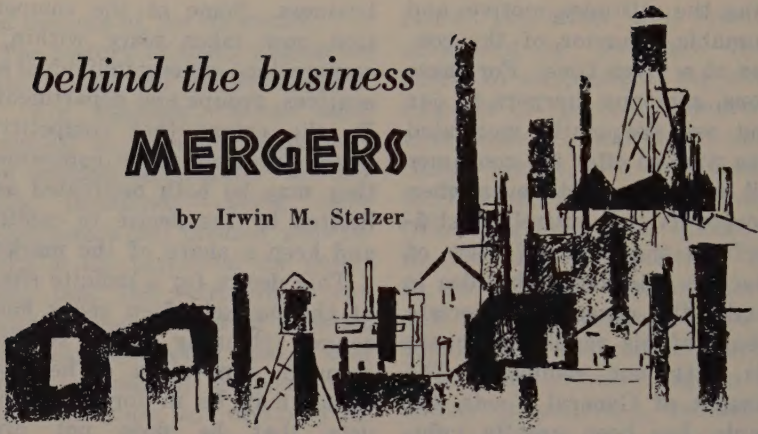
But sensitivity toward public criticism, coupled with the impact of psychological advances in exploring consumer attitudes, is helping to make business increasingly alert to its social role.

The growing influence upon business action of recent research in the psychology of the consumer may soon be followed up with a comparable re-examination, on the part of business, of its own motives and social goals. ■

behind the business

MERGERS

by Irwin M. Stelzer



This latest wave has been prompted by sound, competitive reasons

IN MINING AND IN OIL, in automobile manufacturing and in textiles, in banking and in chemicals, to name just a few of the fields, big business mergers have been making headlines during the past twenty-four months. In addition to the ones which made the headlines, there were thousands of other unnoticed business amalgamations and integrations which had behind them the same basic economic reasons prompting the bigger names to make the move. But so much publicity was given to the more important instances of merger that many people now are asking themselves: What is this desire to merge? What effect will it have on a free-enterprise, competitive economy? And just what attitude will the Federal

Government take toward this trend in the business community?

The last question has been answered, to a great extent, by the Department of Justice in the case of the proposed merger of Bethlehem Steel and Youngstown Sheet & Tube. The Department advised that the precise nature of this proposed merger—which would have created a 2.3 billion-dollar firm—would be in violation of public policy as expressed in our antitrust laws.

But the first question which needs to be answered is: Why this urge to merge? The thing to be remembered is that the urge has been around for a long time. Although the mergers of the past few months have been headline catchers, the so-called "recent"

wave of corporate weddings belongs to a period of business history which began about fifteen years ago. Prior to 1940, our economy had witnessed two other distinct periods of mergers, one running from about 1890 to 1904 and the other occurring during the late 1920s.

It is generally agreed that the earliest of the merger periods was by far the most important. Conservative estimates indicate that 318 industrial combinations were formed prior to 1904, giving rise to seven billion dollars in securities issued, involving 5,288 distinct plants and accounting for approximately 15 percent of the total number of plants and employees in manufacturing at the turn of the century. The wave of mergers of this period seems to have been motivated largely by a desire to obtain a dominant market position—monopoly. In the attainment of this goal, industrialists were aided by a group of promoters who saw in the speculative stock market of the period a perfect outlet for the securities of the new consolidations and a source of substantial profits for themselves.

The second period of mergers, that of the 1920s, involved more

than twice the number of plants absorbed in all the combinations reported through 1904; but this period has received far less attention. This is due primarily to the fact that few of the 2,100 mergers involved had monopoly as their goal. Most of them joined firms which never had been competitors—firms serving different territories, producing different products or engaged in different stages of production.

This brings us to the most recent wave of merger activity, the one in process since 1940. Although a minimum of 2,450 concerns disappeared from mining and manufacturing alone as a result of mergers between 1940 and 1947, the average annual number of disappearances was about one-third that of the 1920s. And despite the recent headlines, we are not now in the midst of a merger fever which even approximates in intensity what happened between 1940 and 1947. The cotton-textile industry, for example, witnessed an average of sixty-eight mergers per year between 1940 and 1947, but only nineteen in 1952 and twenty-five in 1953.

Nevertheless, mergers remain a topic of interest and of importance. Businessmen *do* continue to use the technique of acquiring the assets or stock of other firms to increase the size of their own organizations. And in analyzing

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the factors which motivate mergers, we can with greatest profit concentrate on the period with which most of us are familiar—the period since 1940.

THERE ARE several reasons why companies absorb each other. One of the factors behind many World War II combinations was the desire to participate in the higher profit margins allowed by the Office of Price Administration on finished goods—a desire which led to a vertical movement “forward” into more advanced stages of fabrication. Since price regulations were such that a producer could often claim each of the markups allowed on subsequent operations, the acquisition of a new operation provided additional guaranteed profits.

Another force which induced mergers was the product shortages which characterized many markets during and for some years after World War II. The shortages led to “backward” integration to assure sources of supply. No less than 60 percent of the acquisitions which occurred in textiles between 1940 and 1947 were purchases of mills by supply-hungry selling houses and converters. This “backward” integration via merger was, in many instances, also an act of self-defense against the desire of producers to integrate “forward.”

It is interesting to note that the easing of war and postwar shortages has not entirely eliminated this factor in merger motive. The existence of actual shortages has been replaced by fear of future shortages. For example, petroleum refining companies have in recent years had little difficulty in obtaining crude oil. Yet, Mid-Continent Petroleum, which has long centered its activity in refining and marketing, has been making financial news with its proposed combination with Sunray Oil, a leading crude producer. The reason for the merger: Mid-Continent's desire for an assured supply of crude oil and Sunray's need for assured marketing outlets.

Still another factor in mergers is the tax structure, which has been a major reason for the sale of one-fourth of the assets of all companies bought up in recent years. An incorporated business pays a combined normal and surtax of 38 percent, and is usually required, subject to penalty taxes, to distribute 70 percent of its net income as dividends. This comparatively high rate of taxation on corporate income induces some businessmen to sell out, to pay the lower capital gains tax and thus reduce tax liabilities. In addition, there are estate taxes, which, since they must be paid in cash shortly after the owner's

death, frequently mean forced liquidation of blocks of stock for which there is little market. Hence, aging owners of small businesses are induced to sell out to larger firms.

OTHER forces have also been at work. Most businessmen have become increasingly aware of the necessity of spreading the risks inherent in all business operations by diversifying. Merger is one of the simplest methods of diversification. The much-publicized proposed merger of Textron, Robbins Mills and American Woolen has as its purpose the formation of a single firm diversified in all textile lines. All this represents businessmen's response to the fact that in a dynamic and changing economy some products are always falling from consumer favor—to be replaced by others.

Another economic advantage many seek from merger and integration is to gain better knowledge of market conditions. It seems clear that consumer preferences can more quickly be reflected in the production policies of a firm which has its own market outlets than can be done in the case of an enterprise which has to wait until such information filters back from retailers to wholesalers to jobbers, etc.

Finally, what may be loosely termed "management considera-

tions" are also important in the urge to merge. Among these are: (1) a desire to retire; (2) loss of key management personnel by death; (3) desire to reduce the management load borne by the key executives; (4) the inability of top management to keep up with competitors; (5) desire to become connected with large companies; (6) dissension among the owner-managers.

FOR ALL of these reasons, then, firms have merged. And what has been the result of this activity? One factor stands out. With the possible exception of a few instances, recent merger activity has had little effect on the level of industrial concentration. Unlike mergers of earlier years, recent corporate consolidations have not involved the fusion of large firms into larger, monopolistic ones. Consequently, it would be incorrect to assume that the sole effect of mergers is to reduce competition. Some, no doubt, have had that effect. Dominant firms in the compressed and liquified gas industry, for example, have built up monopoly positions by the outright purchase of over thirty competitors. But the recent amendment of the Clayton Act may very well mark the end of this type of merger. In 1950, Section VII of that Act was amended to prohibit the acquisi-

tion of assets as well as stock of corporations where such acquisition may result in a substantial lessening of competition. Congress thereby furnished its antitrust agencies with a tool for nipping monopolistic tendencies in the bud—a tool which recent developments indicate will be used when needed. Thus, Bethlehem Steel and Youngstown Sheet & Tube have been prevented from merging; and Benrus Watch has been ordered by the courts not to vote its recently acquired stock in Hamilton Watch.

But most mergers—particularly if the revised Clayton Act is enforced—are themselves the source of more competition. The automobile industry provides the leading current example. The joining of Packard and Studebaker, and of Nash and Hudson may very well increase the workability of competition in that industry. True, the number of individual firms has been reduced. But the test of competition, from the automobile buyer's point of view, is the number of real alternatives open to him as a purchaser. Obviously, the products of the companies in question did not provide much of a real alternative to the purchase of cars made by General Motors, Ford and Chrysler. The cars of the new, merged firms, on the other hand, may be improved enough to provide real, competi-

tive rivalry for the "big three."

Mergers which have as their goal diversification also tend to increase competition in many markets. In this context, consolidation is simply another form of free entry since it allows established firms to enter new and different markets. Thus, it was a chemical company which touched off a wave of competition in the soap industry by introducing a sudsless detergent. The producers of film, natural gas, rubber, coal, glass and whiskey are always "upsetting" the chemical market. And it took an automobile firm to revolutionize rail transportation by developing the diesel locomotive.

What all this seems to add up to is simply this: mergers in recent years, far from leading to the monopoly positions associated with early consolidations, have often brought increased competition. With the protection of a vigorously enforced Clayton Act, the public may continue to look for increased quality in the goods and services flowing from merged and integrated firms. When a merger does not achieve the expected improvement in performance, the market place—the final arbiter—can always hand down an adverse decision. In that event, the firm in question will either "unmerge," as has happened before, or pass from the scene. ■

Patchwork

SUBURBS

by Morrison Colladay

Planned and paid-for development must keep pace with suburban settlement

THE COMMUNITY problems of "patchwork" suburbs are something relatively new on the American scene. Attention during the past decade has been focused elsewhere—on the phenomenal growth in population of "planned" suburbs which almost everywhere are growing at a rate of two, three and four times as fast as the main urban centers of the country.

But already the 1950 census figures have begun to show some peculiar patterns in the growth of America's suburbia. Of the twenty-one million people living in suburban areas, almost seven and one-half million were counted as living in unincorporated or "fringe" communities. Problems arise from the fact that these fringes are devoid of those services which go hand in hand with

adequate community living. As one expert in these problems puts it: "Fringe residents are living in urban areas, yet they resist coming under the jurisdiction of comprehensive local government machinery capable of satisfying their community needs."

One can easily understand why people are attracted to these outlying and unincorporated areas. Land is cheap, and tax assessments are extremely low. This is ideal for young families whose pocketbooks are fractured by the



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purchase of a home. There are no water systems, but wells can be dug; no sewers, but septic tanks can be installed. There may be only dirt roads, but most fringe residents travel a good deal of the way home through paved city streets and over county-sponsored parkways. There is no police force, but state troopers are on call in an emergency. There is no fire department, but engines from neighboring cities and towns are obliged to come to the rescue. Schools are always poor and inadequate, but for young families schools are not much of a problem until children reach school age.

WELL-DEVELOPED cities suffer from the disorderly growth of the unincorporated fringes. Approximately 60 percent of America's urban centers dole out services of one sort or another to fringe-dwellers on a no-cost or low-cost basis. County treasuries are also inevitably tapped. But no matter how benevolent this sort of activity on the part of cities and counties may seem, or how much of it is done as self-protection, it never pleases the city taxpayers to see money which they paid out for their own welfare going into areas which were not around when the money was appropriated.

One way to resolve these problems is annexation—or the legal integration of the fringe commu-

nity into the corporate limits of the central city. Annexation is usually made in response to wishes of both the city and the fringe. This legalizes an already existing relationship *after* the fringe has been partially developed by an extension of city services. More annexation of fringes would take place were it not for some state laws which make it difficult for a city to gain territory beyond the limits set down in its original corporate charter.

Usually, a full fringe "cycle" must be traveled before the residents of a fringe area become very enthusiastic about supporting community expenses, either through annexation or by incorporation. A study of fringe areas around Flint, Mich., sponsored by the University of Michigan, shows that at first fringe residents see no necessity for establishing a sound system of community services financed by tax payments. But as the fringe area population grows, and houses become more crowded, problems multiply. Septic tanks tend to pollute wells. Families with growing children want better schools. "The inevitable result," says the report, "is slowly increasing services at relatively high unit cost. The disorderly pattern of fringe settlements with alternately scattered and crowded development is ill able to support city services at

the same cost as the more compact and orderly settlement patterns of the city."

Occasionally, a fringe area will grow so quickly that its residents will decide to act together and incorporate themselves into a city or band together into a village or town in order to provide their area with sound services. But unless taxes are pegged high enough, the community will be unable to develop itself without running into debt. There is little high-rate business property to tax in the fringes.

Sometimes a fringe community will set up a single-purpose special district to supply the fringe with a particular service, like garbage disposal or a water system. But this type of arrangement also runs into trouble because primary facilities must be established as a groundwork for the service to be created. The single-purpose special district is usually characterized by high cost and poor quality of service. Generally speaking, efficiency is best served when there is cooperation

among those units that have services to offer and those areas which need the services.

The ultimate answer to the problem of the fringes would seem to require the cooperation of all governmental units whose jurisdictions touch upon the fringes. Experience has shown that fringes can sometimes solve their own problems through their own actions. On the other hand, serious financial burdens have been put on cities because the extension of aid to fringes, more often as not, costs more than any new taxes which can reasonably be imposed on the whole community. The inevitable lesson to be learned—particularly by those who live in these unincorporated fringes—is that if there is to be development, it is best to pay for that development as it occurs. A pay-as-you-go procedure results in equitable distribution of costs and the elimination of future acrimony among neighbors—whether the fringe "goes it alone" or eventually is joined to a larger, established urban body. ■



Lesson in Logic

A RECENT SESSION of the Senate Banking Committee's friendly investigation into the stock market produced the following exchange.

Chairman J. William Fulbright (D.—Ark.): "Who does make profits in the stock market?"

G. Keith Funston (President, New York Stock Exchange): "The people who own stocks that go up."



the DPs

by Ada Siegel

—an international nation of refugees

OUR GENERATION is witness to the birth of a new nation—an international nation of refugees, mighty in number, hopeless in outlook and dangerous in potential. It is a nation made up of people who steal across international frontiers and end up in DP camps. They stampede from their homelands and eventually end up in refugee depots. Sometimes we find them, still in their home towns, standing and fidgeting in line before some foreign consulate, registering to go someplace—any place will do—and thereby qualifying simply and purely as “surplus population.”

Politically, such unwanted and surplus populations form the most fertile ground for Communist agitation. Morally, the fact of their existence spells degradation and a sense of injury in millions. Economically, their up-

keep presses upon the resources of governments and of voluntary agencies alike—adding up to unproductive waste in a world which cannot afford to dissipate its resources. From every viewpoint, therefore, the governments of the free world will have to tackle this problem soon, and on a world-wide scale, or else be overwhelmed by the consequences of the usual “too little and too late.”

The expectation was that at war's end, the refugee problem would also end, and that all those who were not exterminated would happily return to their homes. Many did return to their old domiciles—some voluntarily and some by compulsion. Three million found new homes overseas. Yet, official sources like the United States Displaced Persons Commission and the United Nations International Labor Office

estimate the number of refugees and surplus population in Europe alone at about ten million, with half of that number in immediate need of resettlement opportunities outside the continent of Europe. And the figures keep rising every day.

In the Far East large human masses were dislocated in Malaya, in the Philippines, Indonesia and Burma. Their numbers have been swelled by two to three million in Korea and the as yet uncounted millions in Indochina. And in the Middle East, 875,000 Arabs, displaced from Israel, are now in their sixth year of waiting for someone to decide their fate.

We no longer blink when we hear that the United States Government has spent more than four billion dollars to maintain refugees in West Germany alone. The very fact that we so smoothly think in astronomic terms should enable us to see the problem not as one of individual migrants, but of wholesale communities who need transplanting in bulk.

The 20th Century refugee differs radically from the old-time migrant. He is no longer a lone wolf striking out for a better life overseas. He is one of many

separated from their country by war or persecution. These people do not know where they are heading, because they have no place to go. Often, the move *must* be made, involuntarily, and even more often the reasons for leaving home are not chiefly economic.

THEREFORE, the migrants of the 20th Century present the world with a problem whose magnitude and difficulties are unique. Yet, there is an answer. It is possible by bold decisions to make a huge asset of a monstrous liability. The migrant of today must be thought of as a colonizer, not as an errant emigré. His destination should be determined not by loopholes in the immigration quotas, but by economic needs of empty lands.

This makes sense if you but look at the map of the world. There is part of the continent of South America; there are Canada and Australia, rich but for their poverty in people; and there are Africa and Alaska. Skeptics, of course, will say that these areas which still stand empty are not capable of producing anything—that they are all either too tropical or too cold, dry desert or northern wasteland.

The attention of such skeptics should be called to the fact that barely fifty years ago we were assured on good authority that

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much of southern California was uninhabitable desert. The Canadian North and West, a high Canadian official told the author in 1944, could not be considered in terms of settlement because it was barren, transportation was unavailable and the cost prohibitive. Yet, the expanding needs of the last war and the cold war period have forced Canadians, against their "better" judgment, to penetrate their own rich wilderness. And today the Canadian West and North, beginning with the city of Edmonton in Alberta, is one of the spectacular boom countries of our time.

The expectation of bigger things to come moved farsighted Canadians to think about the inadequacy of the country's population in comparison to its huge resources. Canada launched one of the few economically integrated immigration programs of the postwar period. In 1947, the so-called labor schemes for DP immigration went into effect. It was determined that the mining and lumbering industries, and the fur, tailoring and millinery trades could use workers. Canadian teams representing the government, management and labor went to Germany and Austria. There they trade-tested would-be migrants, already processed otherwise by the International Refugee Organization of the United Na-

tions. Anyone who was not a lumberman, furrier, tailor, miner or milliner was out as far as the Canadian labor schemes were concerned.

Had Canada, instead of or in addition to her labor schemes, also planned to launch whole new communities in her rich Northwest, she would have needed doctors as well as miners, builders as well as lumbermen, and as many clerks as furriers.

A NUMBER of studies have been conducted to determine the possibility of colonization in the South American tropics, in Surinam, Chile and Bolivia, in Australia and Alaska—all underdeveloped for lack of population, for lack of capital and imagination. The important thing to remember is that these areas may not be ideal, but they all possess important resources which can be the foundation of a healthy economic development. None of these near-empty lands, many of them cursed with the uncertainties of a one-product economy, can be developed by individuals braving the wilderness alone. Modern pioneering is too complex and too expensive to depend on the capacities of one man's family. Settlement of these areas today must be made by groups on a large scale. Roads, transportation, drainage and irrigation, schools, libraries and hos-

pitals—all will have to be aspects of community life and effort.

Moreover, modern colonization cannot be a purely agricultural undertaking, one of the basic mistakes made to this day, even in new projects already underway. For one thing, the best arable lands are already occupied; for another, the majority of refugees are not farmers, but artisans of every kind. And finally, modern living depends as much on industry as on primary food production. Modern colonization therefore, is agro-industrial, combining food production with every type of manufacturing. The fitness of a land for settlement thus can no longer be measured by agricultural promise alone.

THIS is not idle talk. Group settlements do not receive much publicity, but they exist and they flourish, even though on far too small a scale to cope with the refugee problem as a whole. There are the Mennonites in Bolivia and

the Hutterites in Paraguay. Refugees in Europe's camps, when they heard the prospects of settlement in Surinam, wrote: "We know that life will be full of toil and hardships. But it makes no difference, as long as we build."

Optimism on this score seems less misguided than the pessimistic forecasts of experts have already proved to be. They said that there would be no masses of refugees for pioneering; they said there would be no land available; they said there would be no markets, overlooking the fact that immigration itself creates an expanding internal market. The experts erred because they thought in terms of the last century. But the 19th Century is gone, and the challenge now is to treat the refugee problem creatively. In making the colonization of the world's backward areas a devout task of the democracies, we shall find welcome allies in those who are now mis-called "surplus population." ■

Human Nature

LIKE MANY PEOPLE these days, you probably take great pride in refinishing your own furniture, making simple plumbing repairs, doing your own painting and sewing your own draperies.

But in the kitchen you may have succumbed to the DON'T-do-it-yourself propaganda. The speed, convenience and ease of serving prepared foods is fine, but how much does it add to the food bill? A Department of Agriculture study reveals that one day's meals for a family of four costs \$4.90 when prepared entirely in the kitchen. The same meals, when some of the food was bought prepared, amounted to \$5.80; and when bought ready-to-serve it cost \$6.70.

you may want to know...

TAX ESTIMATES this year will be tough for taxpayers with widely fluctuating incomes—lawyers, securities dealers, accountants and doctors among them. Under the old law, such an individual could estimate a minimum income and pay a token tax during the year. Then, as the year closed, he could file a final return and pay the tax due. The 1954 Revenue Code now demands that tax payments keep pace with income throughout the year.



How to Do It Safely

SAFETY in the home workshop is the subject of a forty-eight-page pamphlet titled "Tips to the Handyman-Hobbyist on How to Do It Safely." Instructions are given in the use of power tools, and precautions are listed for working with poisonous or flammable materials. The pamphlet, which can be obtained without charge from the Home Insurance Co., 59 Maiden Lane, New York, warns that some things should be left for experienced mechanics.

Increase in Ph. D.'s



WE MAY NOT be three-and-a-half times as smart as we were twenty years ago, but we issue that many more Ph.D. degrees yearly. A 1934 listing of "Doctoral Dissertations Accepted by American Universities" gave the titles of only 2,360 Ph.D. theses. Last year's volume lists 9,000. Almost 3,000 dealt with sociological subjects. Only 104 were written on philosophy—for which the degree was created.

"Looking" for Noise

IF YOU'RE planning to buy a home soon, put noise on the list of things to be considered. Rooms which are most used are usually the noisiest, and should be the farthest from rooms in which quiet is desired. Check to see that doors to rooms are solid and snug enough to prevent sound from seeping through or around. Test the bathroom for sounds such as pipe "clanking," water gurgle and

shower noise. Also check to see if the halls are constructed to reduce sound, or the noise of footsteps or normal speech may reverberate throughout other rooms.

Mortgage Insurance

IF YOU own a home with a mortgage, you can get insurance to cover the mortgage payments should you be disabled by accident or illness. Benefits are paid for two years, but to be eligible your disability must be total and continuous and you must be attended by a physician. The cost of the insurance is based on a rate of 30 cents for each dollar of mortgage payment with a minimum premium of \$7.50.

Harbinger of Spring



IF YOU'RE planning to take advantage of the spring auto trade-in deals, take the advice of used-car experts. Clean up your car. Appearance is nine-tenths of the sale. Use the vacuum cleaner inside, and don't overlook the trunk—the buyer won't. All agree that you should not paint or have the small dents removed. Experts can see through even a first-class repaint and repair job, and they may suspect that you're trying to hide the effects of a bad crash.

Charcoal Gray Monster



THE "color doldrums" into which men's suits have fallen have inspired one of the nation's largest clothing manufacturers to lead a rebellion against masculine conservatism—in suits, not politics. Joseph H. Cohen & Sons, Inc., which claims to make 25 percent of all men's suits worn in the United States, calls charcoal gray suits "a Frankenstein's monster" of the clothing industry. Because a man considers himself well dressed from breakfast to midnight in charcoal gray, he needs fewer suits. As a result, the sales of suits have been curtailed, the company says.

Department of Better Mousetraps

AN ELECTRIC THERMOMETER that gives instant temperature readings at the push of a button . . . synthetic paper made from nylon, Dacron and Orlon fibers . . . paint sprayed on the wall that comes out polka dots . . . a do-it-yourself atom bomb shelter . . . and, for those who still believe man to be superior to the machine, an electronic calculator that can almost always guess whether you are going to call "heads" or "tails." ■

Photo by Fabian Bachrach



Walke

President, The D

What's Ha Industrial

"We must look upon

Q MR. CISLER, you have been very active in publicizing the peacetime uses of atomic energy. Is it really so important that the public be made aware, at this time, of what atomic energy can do?

A I think it is important, for this reason. Our problem now is to learn how to use the atom in an economical manner so that atomic energy can become one of the pillars supporting the economy and our high standard of living. To solve this problem will take a lot of money and a great deal of initiative and enterprise. Some people will have to devote their entire lives, literally, to the application of atomic energy to peacetime uses.

Q Would you say, then, that we are not toying with something that is any more mysterious or sacrosanct than any other energy source—say oil, for example?

A Of course not. All through history mankind has endeavored to harness the forces of nature so that he might be able to produce more and to lighten his physical burden while producing. Indeed, rises in our standard of living largely depend upon the continued availability of economical sources of energy. We have all seen the destructive power of atomic energy. That power can be harnessed for peaceful purposes just as we have harnessed power from the other energy sources of nature.

Walker L. Cisler

The Detroit Edison Co.

Coming to the Peacetime Atom?

as a kind of Dr. Jekyll and Mr. Hyde."

This is the second in a series of exclusive interviews with prominent businessmen, government officials, educators, economists, etc.—people whose work and ideas influence our lives and our well-being in a hundred different ways.

Walker L. Cisler is president of The Detroit Edison Co. and president of Atomic Industrial Forum, Inc., a private research and information organization concerned with peacetime uses of the atom. Mr. Cisler is a leading proponent of the development of atomic power for industrial use.

Q Precisely what benefits do you believe the commercial development of atomic energy will confer on our society?

A Well, one very important use for atomic energy will undoubtedly be in the production of electric power. At present, electric power comes from the harnessing of hydraulic energy from falling water and from the burning of gaseous, liquid and solid fuels. But if we learn to apply the heat energy contained in the atomic fuels, then we shall have tapped a new source of energy which is estimated to be twenty-three times greater than that contained in all of our currently known fuels.

Q Is energy derived from the atom any different from that which we get from other fuels?

A Basically, atomic energy is the same kind of energy that is derived from all of our conventional fuels. It can do no more, and it will do no less. Energy is energy regardless of its source, and atomic energy must be transformed into conventional power if it is to have widespread application.

Q Ever since the first A-bomb went off, we have been hearing talk about the peculiar virtues of atomic fuels. Actually, however, atomic energy is no different from any other form of heat energy. Is that correct?

A That is correct. There are, of course, other products and by-products of atomic energy which are not in the form of heat—such as isotopes used in medicine, agriculture and in industry. These isotopes are already being used for the diagnosis and treatment of certain diseases. In fact, I think it is probably in the field of medicine that isotopes have so far had the widest application. In the field of agriculture, we have learned that seeds treated by the radiation effect of isotopes result in improved strains. In industry, isotopes can be used for control purposes, assuring us products of uniform quality. It is possible, too, that these by-products may serve as a kind of catalyst enabling us to develop new products which never could be produced without the use of radiation.

Q But as a leader in the electric utility field, you are probably more interested in the power potentials of atomic energy. What do you think of the prospects for atom-powered cars, planes, ships and so on within the foreseeable future?

A We are already using atomic energy in the propulsion of military naval craft, and we certainly can expect that it will soon be used in the propulsion of commercial vessels. In my own lifetime, I have seen oil replace coal in ships, and now we find that atomic fuels are coming to be used.

Q Do you think this will mean the end of conventional fuels?

A No, I do not. I believe that our energy requirements are such that we can use every kind of fuel we get our hands on. Atomic fuels will supplement, but not supplant, existing fuels. I believe that we shall be using more coal, more gas and more oil in the future. With the passage of time, of course, some of these now-conventional fuels will be used for more specialized purposes because of economic considerations, and atomic fuels will assume an increasing importance. But there is room for all sources of energy that we have, including atomic energy.

Q Mr. Cisler, you have been a leading proponent of private commercial development of atomic energy. Yet, at present, there are only some 860 businesses actively engaged in this field. Do you think that the full potentials of private initiative in this field are being utilized?

A Well, until August 1954, when the present Atomic Energy Act was passed, the Government was the sole owner of all atom facilities and materials. True, study teams were permitted, and industry was given an opportunity to look into the commercial possibilities of atomic energy. But it was not lawful for any private industry to own atomic facilities.

Q Has that situation changed?

A Yes, to an appreciable extent. Let me give you an example. Our electric power industry produces more than 40 percent of the total electric power output of the world. At the present time, more than one-half of the total electric power consumers in the United States are receiving their electric service from companies engaged in atomic energy research and development. My own company is associated with a group of thirty-three other companies, with facilities which include power systems, manufacturing organizations and construction undertakings—all being used in an important atomic energy development project. It is a very great task that lies ahead of us, to bring about the economical use of atomic energy. There are great problems to be solved—problems in engineering, in economic and commercial development, in government relations, in management, and so on. The list is endless.

Q Let's take the economic difficulties first. Would you agree that cost is one of the major problems that still has to be overcome?

A Yes, indeed, because unless we can find a way of using atomic energy at a cost equal to or less than that of other sources of energy, there is no point in using it. So the economics of it are extremely important.

"I think we are getting out of the creeping stage now and into the walking stage."

Q The capital needed for the commercial development of atomic energy must be tremendous since the machinery and equipment needed is completely new. Where is that capital going to come from?

A This will involve very high-cost investment. I know this is true because the power industry is a high-cost investment in any case.

We must keep in mind that the development of atomic energy for peaceful purposes is something that will be progressive. We shall learn to use it better and at a lower cost as time goes on. I think we are getting out of the creeping stage now and going into the walking stage. I hope that we shall be good runners eventually. And in the long run, I think that the capital to develop commercial uses of atomic energy must come from those who want to use it commercially.

Q In this connection, do you feel that it might be desirable for the Government to subsidize private atomic energy producers in view of the initial high costs involved?

A No, I do not believe that we should have *subsidy*, in the sense that the word is commonly used. I realize that there is a very great developmental expense, but this is always true when we are seeking new ways to do things. In the case of atomic energy utilization for civilian purposes, I believe that it is important to use the facilities which the Government has already constructed for research and developmental work. I believe those facilities should be made available to industry.

Q And what beyond that?

A I believe that private industry should bear its fair share of the developmental expense. I might tell you that the thirty-three companies with which my company is associated had, by the end of 1954, expended nearly four million dollars of their own funds to carry on research, development and economic evaluation of atomic energy. But in 1955 we shall be spending almost as much as we did in all previous years combined.

Q Does this mean that you do not believe atomic energy is such a big and difficult problem that only Government can handle it?

A I believe that there is a proper place for industry in the development of atomic energy. Of course, that in no sense excludes Government from playing its proper role. In this whole field of energy, of which atomic energy is a part, private industry and private enterprise have always played the major role. I believe that it is the responsibility of these industrial organizations to carry out the further development of atomic energy for commercial purposes.

Q There are people, however, who claim that atomic energy is unique—that there are certain problems with respect to atomic energy such as safety, cost, restricted markets, and so on, which make it uneconomical for private firms to go into the field. What do you think about this contention?

A At the present time, it is uneconomical to use atomic energy for power purposes in our everyday lives. But that does not mean, however, that we ought not to engage in its development and ought not to use our own funds to find answers. True, the problems are great. But it has never been a habit of our American competitive system to run away from problems. Atomic energy primarily manifests itself in heat energy, and heat energy is, as I have already said, the same kind of energy industry is accustomed to using. It is true that manifestations of nuclear energy in the form of radiation can make the problem of handling its products and by-products difficult. But basically, it is the same kind of energy that is released from our storehouse of conventional fuels.

“We are entering upon a new era in which our efforts will be greatly devoted to the constructive side of the atom.”

Q Do you feel that the military development of atomic energy, which is, of course, essential, has slowed the more peaceful applications of atomic energy?

A I believe that the need for defense applications has had the net effect of making us all the more conscious of the importance of developing the atom for peacetime purposes. I think we must look upon the atom as a kind of Dr. Jekyll and Mr. Hyde. This great source of energy can be used for destructive purposes, but really it can and should be used for constructive purposes. I believe that we are entering upon a new phase, a new era in which our efforts will be greatly devoted to the constructive side of the atom—the Dr. Jekyll side. On the other hand, people should not expect miracles from atomic energy. It will change our lives only to the extent that it provides us with a hitherto untapped resource. But how well we use the atom depends upon what human beings want it to do.

Thank you, Mr. Cisler.

Balance Sheet on the Schuman Plan

by Michael L. Hoffman

After eight years—breaking old trade barriers and building new ones

DURING THE PAST two and one-half years, a group of earnest and devoted men in the toy-like capital of Luxembourg have been working feverishly in order to prove a theory. The theory, which is more widely held in the United States than in Europe (but whose adherents everywhere are passionately sure they are right), is that an economically better Europe can be “made” by dissolving the restrictions of national frontiers.

That the theory was ever put to the test is a miracle. This is why its proponents are working so hard. They are out to prove that economic integration is possible, at least in two industries that above all others can claim to be basic to a modern industrial economy—namely, the coal and steel industries.

The European Coal and Steel Community was established under the terms of a fifty-year treaty ratified by Belgium, the Netherlands, Luxembourg, Western Germany, France and Italy. The



broad object of the Community is to establish a common market for coal and steel among the six signatory countries, a market which is free of all forms of discrimination based on national origin or destination of products. That was, and is, a big order.

Early this year the High Authority, the executive branch for the Community, announced with great pride that the 1954 coal production had reached the highest levels since World War II; and steel production had surpassed all previous records. According to the Authority's figures, during the Community's second year of operation the industries subject to its jurisdiction expanded output, percentage-wise, more than the corresponding industries in either Great Britain or the United States. Other evidence cited by the High Authority to show that the Community is "working" was the increase in cross-frontier movements. And while the figures on steel do not indicate any spectacular change in intra-Community flow, the total exchange of coal across frontiers has risen by more than one-third since the common market was opened.

All in all, there can be no doubt that a common market for coal and iron ore is well established—at least, in the sense that there are no more tariffs, quantitative restrictions or other frontier barriers to the movement of coal and iron ore within the Community. To be sure, the common market for steel is still very imperfect.

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Italy, for example, is able, under the treaty, to keep a steel tariff until 1957. And many forms of both governmental and private discriminatory measures still remain. But there seems to be no doubt that buyers are beginning to take advantage of the opportunity to pick their suppliers regardless of nationality, according to strictly economic considerations of distance, delivery date, prices, etc.

The High Authority has also begun to activate the powerful financial machinery built into the treaty. The basis of this financial strength lies in the power of the High Authority to impose a tax on coal and steel production within the Community. This tax, usually called the "levy," has been fixed at .9 percent of the value of the total output of each enterprise. Its main purpose, apart from financing the comparatively small administrative expenses of the Community, is to provide a guarantee fund for the payment of interest on loans contracted by the High Authority.

Thus far, the only loan the High Authority has contracted is one for one hundred million dollars from the United States Export-Import Bank. Sixty million dollars of this have already been relaned by the High Authority, the bulk of this first "dose" going to coal companies for the improve-

ment of their extraction, processing and power facilities. The High Authority has indicated that another twenty-five million dollars will be loaned to organizations, both public and private, which will construct housing for coal miners.

But the High Authority's capacity to become a source of capital for the industries of the Community is very much greater than the one hundred million dollars borrowed from the Export-Import Bank. If the flow of revenue into the guarantee fund continues at the present rate of a little over twenty-five million dollars per year, it can support a tremendous credit structure. Besides, the High Authority finances only part of any given project. The sixty million dollars already loaned activated a total of nearly two hundred and seventy million dollars' worth of investment, the difference being made up through loans to the industries involved from ordinary financial channels.

BUT whatever favorable signs of progress some people may find in the figures and reports released by the High Authority, there is a widespread feeling in Europe that the Coal and Steel Community has turned out to be a kind of dead-end street. The reason for this, first of all, is political. Neither Robert Schuman, who

sponsored the plan politically, nor Jean Monnet, who fathered it intellectually and became the Community's first president, ever concealed their fond hope that the formation of the common market for coal and steel would be *only the first step* in the process of economic and political integration of all Western Europe. The second step was to be the establishment of the European Defense Community, and the third, a formation of an all-European parliament whose members would be directly elected by the people, not chosen by the governments. When EDC was rejected by France, the third and final step receded into oblivion. The Coal and Steel Community was left, so to speak, isolated in the midst of reviving nationalisms in all of the main Western European countries.

Aside from the disappointments which have arisen from the almost hopeless paradoxes of European politics, for which the Community could hardly be blamed, there are some specific and damaging criticisms of the manner in which the Community itself has been working. Coal and steel output has risen, but so have prices. After a period of softness during 1953, steel prices within the Community have edged steadily upwards. And the price of exports from the Community has been kept still higher by an

openly functioning cartel with headquarters in Brussels.

The existence of this cartel is one of the most frequently criticized aspects of the Community's endeavors. While the High Authority does not seem to have any direct authority to break up an export cartel dealing with countries outside the Community (as opposed to one operating within the Community itself), the whole tenor and philosophy of the treaty are in conflict with the practices of price-rigging, whether they be internal or external. As the aggrieved Danes, Swedes and others have pointed out, and so far to no avail, the six nations of the Community bound themselves in the treaty to "take account of the interest of third countries." Critics say it is not being done.

A MORE fundamental criticism is that the Community is becoming something of a cartel itself, operating increasingly in the interest of coal and steel producers and losing sight of its original, broader objectives. Even in the strictly economic sense, the Community was never to be an end in itself. Prosperity in the coal and steel industries was supposed to be secondary to the attainment of prosperity in the six-nation economy as a whole. Cheaper and better coal and steel for the fabricating industries, whose

products form the real substance of all that is meant by modern living standards, were to be the chief objectives.

Those who make this criticism can, indeed, cite a number of disturbing developments. The coal industry, which employs nearly ten times as many people as the steel industry, has nevertheless been the recipient of large sums of money and many forms of special protection from governments, both before and after the formation of the common market. It is almost completely subject to centralized pricing, and there is no visible competition, even on the retail level in most parts of the Community. In France, the coal industry is nationalized. In West Germany and Belgium, it is cartelized. The High Authority has neither established effective competition in coal, nor provided an alternative method of injecting into the industry the kind of drive for lower costs it so clearly needs. It is cheaper for a resident of Basel, Switzerland, to buy coal from West Virginia and have it hauled up the Rhine River than to buy coal of comparable quality from the basin of the Rhine itself. This is not progress toward the Community's goals.

THE steel industry has benefited also from enormous investments since World War II. The con-

struction of several large continuous strip mills has put Western Europe in a position to carry out a technological revolution. Such advances during the past twenty years brought the relative cost of sheet metal in the United States down to levels that made the postwar boom in durable goods profitable. But while a technological revolution has come about in Europe, no comparable price revolution is to be found. Prices of the products of the efficient new mills are kept at high levels so that obsolete mills may remain profitable. The use of steel in making things that consumers buy is increasing, but not as fast as it is increasing in the United States. The United States per capita steel consumption is already three times what it is in the Community, and the disparity seems to be increasing, instead of lessening.

THE removal of discriminatory practices within the Community has been slower than it was supposed to be. The High Authority still has not been able to impose its power on national govern-

ments to bring about the elimination of the practice of "breaking" railway hauls at national frontiers. A shipment from the Ruhr to Lorraine does not get the benefit of a lower, long-haul rate that would ordinarily apply to similar shipments going the same distance within Germany or France. Rate-wise, the journey is broken at the frontier into two short-hauls. This practice typifies the kind of mutually destructive economic nationalism the Community was founded to combat and eliminate.

But these instances of failure do not, as yet, mean that the Community has failed entirely. They do mean that the European Coal and Steel Community is passing through a time of serious testing. The High Authority does not have to win all of its battles against the disruptive and protectionist tendencies of national governments and producers' organizations. But it will have to win a good many of them if it is not going to degenerate into a kind of technical secretariat with a substantial lending power, and nothing more. ■

The Weaker Sex?

LITTLE GIRLS MANAGE to stay out of hospitals as patients better than little boys, according to a recent life insurance report. Counting all under eighteen years of age as children, one child in twelve is admitted to a hospital during the year. The sex ratio is three boys to two girls. The average stay in the hospital is five days.



The Medieval Era

The rise and fall of feudalism and the beginnings of secular economic thought

THE DECLINE AND FALL of the Roman Empire has been the subject of many volumes. For our purposes we need only to scan some of the contributing factors without attempting to put them in order. The Empire had grown vast and encompassed many different peoples within its boundaries—too diverse and widespread a group to be controlled adequately by an increasingly corrupt and incompetent Roman administrative machinery.

The Empire was further buffeted by a breakdown in the economic system. Wasteful methods of agriculture led to exhaustion of the soil. Lines of communica-

tion with the outlying provinces became difficult to maintain, and domestic industry, never encouraged, could not take up the slack. Faced with constant and impending financial crisis, the Roman government drained the resources of the commercial middle classes with oppressive taxation. The loss of consensus on a principle of authority furthered the inner decay of Roman society. As a result, the barbarian inroads which for decades had been successfully staved off began to have a destructive effect.

The consequent collapse of political and economic institutions within the Roman system necessitated a gradual decentralization of authority, with agriculture, industry and trade collecting around

This is the third article of a series in **CHALLENGE**, dealing with the economic development of Man.

smaller and smaller units. The reversion to small-scale, hand-to-mouth production and to ever-contracting economic units could have only one result—the decomposition of the Empire and the rise of a feudal order.

THE MEDIEVAL ERA refers to a period of roughly one thousand years from the fall of the Roman Empire in the 5th Century to about the middle of the 15th Century. The essence of medieval society lies in its rigid stratification of classes, based on mutual, though varying obligations. Each lord held his landed estate by virtue of his military ability to protect his property, as well as those who worked on it. For the use of the land, the serfs paid the lord in kind and in services. Personal and reciprocal obligations between serfs and lords replaced state and public duties.

The manorial estate was, for the most part, a "closed economy" characterized by self-sufficiency and isolation. But while each manor was more or less a complete economic unit, sporadic physical contact between manors and a general acquiescence to the social and moral codes of the day brought a cohesiveness to the medieval world which had been lost when Roman influence waned.

There was the general view that social organization was to be

directed toward a moral purpose set by a divine plan of the universe. Society, like the human body, was an organism composed of different members, each of whom must perform his own function and receive the rewards suited to his station, and no more. On top of the strictly hierarchical society stood the Church. While the feudal lords were widely scattered, both geographically and in their personal ambitions, the Church possessed a doctrinal unity which gave it universal influence in most parts of Europe.

It was essential, then, that economic theory be shaped in a theological mold, particularly in the early stages of medieval society. It was maintained that economic interests were to be subordinated to the real purpose of life, to find salvation. Economics meant a body of laws based on moral precepts designed to assure the "good" administration of economic activity. St. Ambrose, writing in the last days of the Roman Empire, condemned all forms of saving as unshared wealth. Personal enrichment was immoral since it represented a surplus above necessity, an unfair share of scarce heavenly gifts which God had intended for all mankind. Profits from trade were also sinful since such profits were a direct consequence of another's lack.

But while the early Middle

Ages dealt harshly with the economics of trade and commerce, they did not destroy economic development. Techniques of better tillage and improved agricultural tools made it possible to support a steadily rising population. This was accompanied by a profound change in economic requirements and activities. The Crusades brought cultural contrast and commercial contacts to Western Europe. By the time of the final flowering of the medieval spirit in the works of Dante and St. Thomas Aquinas, the forces making for the dissolution of medieval society already existed.

THE RISE of towns and a class of merchants dependent on markets, as well as the growing capital needs of the Church itself to finance the Crusades, inevitably raised heretofore unconsidered questions on value and price, on money and interest. Despite the fact that money and interest were discussed in "noneconomic" terms, that they were discussed at all is a reflection of the changes in progress. The uncompromising attitude of the early Church could not be maintained in the face of this new economic development.

The economic speculations of later medieval writers (who were mostly theologians or commentators on the canon law), sought, as historian R. H. Tawney put it, "to

reconcile the new contractual relations which sprang from the economic expansion with the traditional morality expounded by the Church." To St. Thomas Aquinas, for example, trade was still an undesirable calling, a badge of man's fall from grace. But since trade was a necessary evil, it might be tolerated if the trader would be content with a "just price."

The concept of a just price itself underwent considerable development. To St. Thomas, price should correspond to the value of the labor contributed by the producer. A just price was that which would enable a man to enjoy the necessities of life according to his position—without taking advantage of his fellow men. Gains in excess of a reasonable remuneration for labor were reprehensible. The unpardonable sin was that of the speculator or middleman who snatched private gain by his exploitation of public necessities—the man who "must be wicked, or he could not have been poor yesterday and rich today."

Apart from the ethical arguments, the idea of a just price was a realistic one. Still a predominantly agricultural economy, with many buyers and few sellers, medieval society was not a happy environment for a free play of the forces of supply and demand. In

a consumption-oriented society, "competition" would have brought prices to near-monopoly levels.

But the advance of trade was rapid enough to necessitate a gradual retreat from the position first taken by the Church. Some Schoolmen (Church scholars) of the later 14th Century suggested that a fair price was most likely to be reached by freedom of contract, since the fact that a bargain had been struck showed that both parties were satisfied. Factors such as the cost of transporting goods to the market and other "miscalculations" became valid reasons for departing from the "just price." In the 15th Century, St. Antonio, writing with a more highly developed commercial civilization in front of him, stretched the traditional doctrine to include the necessary play in market forces.

The "flexibility" of canon dogma is striking also in the theories related to usury, or interest. The doctrine against usury was based on the Scriptures and on Aristotle's theory of money. Money, Aristotle had said, has as its sole function the satisfaction of the wants of commerce—the function of a means of exchange. Money was barren and could not be used to reproduce money. Usury, which made money through loaned mon-

ey, was therefore unnatural and to be condemned.

But the practice of taking interest grew with economic expansion in spite of the continued opposition of the Church. By the 15th Century we find some ecclesiastical writers admitting that interest was permissible under certain circumstances of risk—but never admitting that mere interest on a loan had any creative function.

But whether such writers can still be described as medieval is questionable. Certainly, they no longer were writing in a medieval environment.

AS THE economic structure of society altered, the traditional doctrines had to be modified. And although theological thought tried to make concessions to the needs of the times, it could not abandon its essential nature. The Reformation challenged and upset the universality of the Church. Theology inexorably became something apart from other branches of thought, particularly in those matters concerned with the problems of money, trade and commerce. As the Western world was beginning to enjoy a great commercial revival, the favorable conditions for a secular science of economics were set. ■

NEXT MONTH: Expansion of commerce accompanies the dissolution of the feudal order, and economic outlook is cast in a national frame of reference.

the uncounted GNP

by Julius C. Hirsch

There is more in the Gross National Product than meets the eye

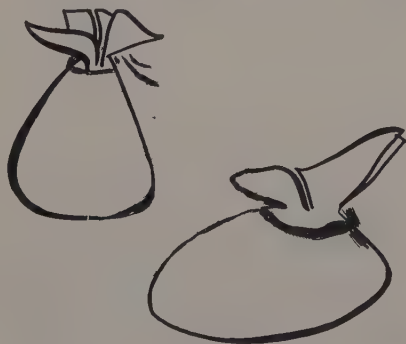
THE GROSS NATIONAL PRODUCT figure is supposed to be a measure of the total level of our economic activity. At the same time it is a yardstick of the advance in our standard of living.

Ideally, GNP figures should show the total value of all goods and services produced in one year by the economy. Most GNP statistics, however, by convention omit one major source of value—namely, the services of housewives. But even if we should abide by this convention, there is still a considerable and ever-increasing element of understatement in our GNP figures. This “hidden” GNP is so large that in the past five or six years it has amounted to as much as the en-

tire nation produced in one year during the 1920s!

What is this hidden GNP, and where does it come from? By far the largest hidden element of GNP is a rather recent development—the rapid growth of “do-it-yourself.” This has been made possible largely by the reduction of the work week so that most of us now put in a five-day, 40-hour stint, or less. That means two days and three nights consecutively away from our regular jobs. In addition, there are usually two weeks of paid vacation, quite a few legal holidays and often a few illegal ones, too. What are people doing with the 1,000 to 1,200 leisure hours they have gained since World War I?

They are putting these leisure hours to good use. There is now ample time for recreation, some of which, like fishing and gardening, deliver real values to our tables which otherwise would have to be paid for. But even



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more important is the very constructive work being done around the home and in the community.

In 1955, about seven billion dollars will be spent on do-it-yourself supplies alone. It is a rule in most industries that the value of purchased materials represents about one-half of the total value of the finished product. In that case, the do-it-yourselfers will be piling up additional values in the amount of seven billion dollars. In succeeding years, this figure will get bigger.

BUT while GNP counts the seven billion dollars worth of tools and supplies which the do-it-yourselfers buy annually, the product resulting from the addition of leisure-time work to these manufactured ingredients—which show up in better homes, gardens and other household amenities—are not shown anywhere.

Another uncounted value emanates from the amount of volunteer work which is done, mostly by women, in our communities. Such work, of course, has always been going on in the United States, but on nowhere near the present scale. It is uncounted in the GNP because it is not paid. But many people are contributing time and skills which would be well rewarded in industry, and for which professionals are paid where volunteers do not take over.

Moreover, while in former years the social welfare agencies were largely staffed by volunteer workers drawn from the more wealthy class, it has become the rule in the past ten years that every income group in the community has begun to participate more and more in social endeavors. For example, each year the March of Dimes mobilizes three million women for its finance campaign. The Community Chest had three million volunteers, too, in 1954 to help with its fund raising. And the American Red Cross has more than 1.5 million volunteers. Most of these people spend one or two days per week on various assignments, fifty-two weeks a year. The Boy Scouts of America have close to a million adult leaders, most of whom put in as many as ten hours per week, and often considerably more. This list can be easily doubled by considering the many volunteer workers connected with the neighborhood church, the school Parent-Teachers Association and the local governments.

A rough estimate of the man-hours put in by volunteer workers in the four major organizations mentioned above amounts to about one billion hours per year spent in activities for the betterment of the community. The values of these activities in improving the health, welfare, and education of

the citizenry, especially the young, cannot be measured.

THERE is another element of hidden creation of values which has come to the fore, especially since the end of World War II. This is the very sharp increase in adult education in the United States. Today, upwards of one million adults over 24 years of age are taking courses of one kind or another in schools, at special lectures and by correspondence. Again the value, especially in terms of business and do-it-yourself skills acquired and in terms of social adjustment, cannot be calculated.

Apart from some of these obvious omissions outlined above, the way we compile our GNP figures relative to known factors also leads to a considerable element of understatement. Since GNP is expressed in dollars, any real indication of its size in comparison with other years partly depends on an adjustment for the change in price levels. To a great extent, however, such adjustments have not been made in the statistics. This is so because the Consumer Price Index, which is mainly used for these adjustments, usually fails to take account of discounts and special sales. As a rule, it deals only with actual direct list-price reductions. Hence, our total cost of living may, in

some instances, be somewhat overstated.

With almost anything from furniture to vitamins available at discounts, this form of price cutting is steadily increasing in significance. A recent study by the Chamber of Commerce of the United States puts the total volume affected by such discounts today at twenty-five billion dollars, or 18 percent of all retail sales. Moreover, about 15 percent of all wholesale transactions are also being made at cut prices, slashing about twenty-five billion dollars off the wholesale bill. Add to this the price cuts made by traditional retailers to meet the new competition, plus the discounts in automobiles which apparently were not included in the Chamber of Commerce study, and it appears that actually some six to seven billion dollars of more consumer goods were sold as compared with a few years ago. The bare figures, unadjusted for these price changes, do not show these additional sales.

OUR OFFICIAL GNP statistics do not count the constant improvement in the quality of the products we enjoy. For instance, the 12-inch television table model of several years ago, retailing for \$350, is not the same as today's 21-inch console selling perhaps at the same price. The new model

is obviously superior, yet the GNP figures do not take this into account.

It is very difficult to put a dollars-and-cents value on these quality changes, and perhaps that is why our GNP statistics neglect them. Their omission from statistical calculation probably understates the GNP by two to three billion dollars a year, if not indeed very much more.

FINALLY, a statistical difficulty arises from the fact that businessmen, owing to the tax laws, have tended to charge many items as expenses which should in reality be considered as an addition on capital account. For example, a maintenance crew with nothing to do at the moment in a factory or on a railroad is not left sitting around, but is put to work building some improvement. Soon, there is an extra workshop, a new approach road or a better heating system. And bit by bit, the factory, utility or real estate gains a capital asset, a permanent value.

These costs are charged to the general wage and materials bill, though in reality they represent

a real capital investment. If the work were done as a special project, it would be considered a regular capital outlay and would become an addition to the investment component in GNP. As it is, the reverse takes place.

This factor, which has become especially prominent since the early 1940s and which will continue, is at least partially compensated for by a special entry in the GNP accounts under the heading of "capital outlays charged to current expense." But while the statisticians figure it at 2.75 billion dollars each year, this is almost certainly a substantial understatement.

Thus, it can be seen that whenever the GNP figures are announced, purporting to show the total value of all goods and services produced by the nation during the year, this figure is certainly always an understatement of what the economy has actually achieved. And as new social and economic trends continue, it certainly will become necessary to devise new statistical and analytical tools with which "truer" GNP figures can be compiled. ■

Pass the Drumstick, Please

FROZEN PREFRIED CHICKEN which the housewife has only to heat and serve, is gaining in popularity, poultry processors report. As to regional tastes, they say Chicagoans don't like backs and necks, Easterners prefer livers to gizzards, while Southerners prefer gizzards to livers—and in Louisiana they *really* go for backs and necks.

New Markets — a Permanent Need

by Paul Mazur

The alternative is an economy which does not have room to grow

ABOUT one year ago the economy was going through a period which was referred to variously as a "recession" or a "readjustment." But whatever the name given to it, it represented an economic retrogression—sufficiently alarming to help bring about a change in the lineup of our Congress in November, 1954. Measured quantitatively, it was very mild. On the production side of the economy, it amounted to probably 5 percent. On the consumption side, it came to practically nothing. But the over-all effect was, nevertheless, one of a backslide due to a variety of reasons.

I think chief among these reasons was the reversal from the

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accumulation of inventories to a de-accumulation of inventories. As a point of fact, we can say that most of the fluctuations in our economy are fundamentally due to changes of that character: when business overestimates the market potential, the pendulum swings too far in the direction of production. When inventories begin to pile up, then business gets a little bit concerned and decides to de-accumulate. Thus, the pendulum swings the other way.

Another factor in the retrogression of 1954, which was coincidental with the de-accumulation of inventories, was the Government's decision to reduce its expenditures for defense purposes. We can say that the total amount of our recession in 1954 equaled the sum of the de-accumulation in inventories and the decrease in Governmental expendi-

tures. But the former was far more important.

It may well be that we shall make the same mistake over and over again—that inventories will again accumulate, and as surely as day follows night, another recessionary cycle will follow. For, unless we learn to correlate supply and demand, production and consumption, there will be periods when inventories increase. And the American economy is not accustomed to an increase in inventory extended over a substantial period of time without creating concern, then liquidation and even dumping.

Very often businessmen, and I include myself in that group, are just as enthusiastic about sales that come from the count of inventory as they are about sales that come from the count of actual consumption and distribution. In reality, as you know, production which goes into inventory is really the equivalent of fool's gold, and there is always a day of reckoning that must come. But let us assume that we eliminate that kind of mining and that we no longer have an accumulation of inventories. Then we must ask ourselves the question, "What beyond that?" Can we say with certainty that all that is required is that we correlate production with consumption? Will this give us a "stable economy"?

One thing we do know, or at least we should know it, and that is that a stable economy is not really a benign or safe economy. To be stable it must be unchanging. We should be very much concerned about it if the prospect for the next ten years is that we shall have a stable economy. The reasons for this concern are very clear.

In the first place, we have a production system which increases productivity at a rate of somewhere between 2.5 and 3 percent per year. In a stable or unchanging or unexpanding economy, this would mean that we could produce the same amount of goods we have now with 2.5 to 3 percent fewer workers every year. At the same time we have an increasing number of people coming into the ranks of labor. We add to our work force somewhere between 750,000 and 800,000 persons per year. In a stable economy, then, rising productivity would actually mean fewer jobs, even though we have more people to employ.

THUS, IT IS PLAIN that under conditions of population growth and productivity increase, we must have an equivalent expansion in our markets and in our consumption levels. If this is not easy to accomplish, at least it points out both the advantages and disadvantages of this extra-

ordinary and miraculous system called mass production in the United States. This system allows us to pay very high wages, relatively, and at the same time it allows those wages to be paid without an equivalent increase in the cost of goods sold. Obviously, if we can continue to pay increasing wages and at the same time hold prices, this is because the same number of human beings are producing more within each hour of their employment. Therefore, mass production, by its very nature, will be a creator of unemployment in a stable economy. On the other hand, a mass-production system which works in a growing economy will show to best advantage.

INTO THIS picture there recently has come another element—automation. I think automation is going to move very rapidly, and it certainly will have a tremendous effect on productivity increases. Therefore, it is obvious, even more so now, that growth is an absolute requirement if we do not want overproduction or unemployment.

Thus we have several important factors which insist that we grow, if we want to remain at least at the standard we have already achieved, to say nothing of bettering our present standards.

The demand for growth is so

essential, that I am convinced to deny it in our thinking is to invite very serious consequences. I wish I could take this particular conviction, put it in a hypodermic needle and inject it where it would do the most good.

But from where is this growth going to come? Of course, one of the obvious sources of growth is in our increasing population. People are not only producers, but they are also consumers. They consume as individuals, and they consume as family units.

At the present moment, we are experiencing a tremendous birth rate which has been in progress since the early 1940s. There is ahead of us the probability of increases in family formations by the 1960s. And what will these families require? You can make a list as well as I can. Families use automobiles and refrigerators. They buy homes. They buy the goods that go into homes.

THE DEMAND of the baby crop of today starts with diapers and baby food, and works its way up until these babies become the progenitors of the family units in 1975. So I think the assumption can be that the population factor is an important one in terms of increasing consumption.

But where will this increase in consumption come from? I believe very strongly that it will come

from a rise in the standard of living. At the same time, out of old desires new ones are created. But I do not believe that this can come about by spontaneous combustion. It must be stimulated.

It is not enough to say, as a great many people do, that if a product is made available, people will buy it. Nor do I believe a price decline will automatically increase sales. I just do not think these things work that way. We must learn to sell better and to advertise better. We must convert a basic economic desire—to acquire more and more things—which has no limitation, I assume, among human beings, into actual demand for goods.

It is a serious fallacy to assume that the existence of purchasing power guarantees purchasing. This is not always a fact. If savings bank accounts begin to rise rapidly at a time when a high rate of production calls for sustained consumption, people are not exercising their purchasing power. The problem is to stimulate people to exercise this power.

THE much-used word "research," which is so important in industrial development, is not used at all in the field of distribution. At present we spend about 3.5 billion dollars per year in the United States for scientific and industrial research. But on distribu-

tion and retailing problems, we probably spend 3.5 cents for the same kind of basic research. Yet, to stimulate consumption is a very complicated problem because we make our products in wholesale lots and sell them item by item.

Of course, there is one simple point of departure which can be used in our consideration of this problem. We can sell things to just four types of people: men, women, boys and girls. We would learn a great deal more about these men, women, boys and girls if we could determine what their motivations are, and what their interests are. We must learn to know them to the point where we can anticipate that 84 percent of the automobiles are going to be in pastel shades—without waiting for them to tell us this is what they want. We must determine all of the things that will increase sales most effectively.

We have got to change the emphasis, in my judgment, in American business and industry so that we make selling at least as important as production and procurement. We must place the rewards that way. We have got to do all of the things which the requirements of growth and the American economy insist we do—even though some American businessmen often refuse to accept these requirements as valid. ■

a personal note

from the editor

*Man and economic history—and
who says who gets what*

A RECURRENT THEME which runs through the first three articles of our "Man and the Economy" series is that human beings have had a great deal of difficulty in producing enough to satisfy the needs of everyone. This is still a problem in many countries. And even in the United States we cannot keep up with all the things we want—what with luxuries becoming necessities. But this is another story.

Whether mankind will ever produce enough to satisfy everyone's *wants* is very much in doubt—thank goodness—for there is no limit to what human beings can desire in an ever-changing world. If ever there is a society which dares to announce that every one of its members is completely satisfied, then surely it will be because a master's voice speaks for the enslaved masses.

Of course, there are some places today where unanimity in political elections is used as a practical expression of universal satisfaction. Perhaps the people of these nations can be induced to give some sign that they have attained 99 percent of their economic wants and needs, as well. Where sheer survival is at stake, individuals can be made to acquiesce to anything.

And while we are making random observations about our "Man and the Economy" series, we might point out that throughout most of history there seems to have been room at the top of the economic ladder for only a chosen few, while the many had to cluster at the bottom. The ancient world thrived on slaves and the "faceless" masses. The Roman world hung on and on by converting the "free" citizen into a scrounging and defenseless peasant or a hopeless member of a hungry mob. The discipline of the medieval world bound the common man to the soil or to a craft. And when finally trade and commerce were rejuvenated, the masses provided the raw labor for economic development.

Not enough for the many and plenty enough for the few was the pattern of the economic history of Man. Not until modern times do we find dramatic changes in this recurrent theme.

This recounting of history presents an unpleasant picture of Man's

inability to get along in the world without "exploiting" his fellow man. Yet, material progress could not have been achieved otherwise. In an economy of scarcity, where demand outpaced the supply by far, savings for future investment had to be collected by the few who could impose their will upon the many. So this is the way it had to be, in varying degrees, until the balance between supply and demand could be redressed. The Communist world, in its drive toward modernization, has chosen to revive the old, historical pattern of economic growth through the exploitation of the many. There are better ways in the twentieth century.

IS THERE A SPECIAL ideological mold into which a society might cast its political and social objectives so that it can develop the technique of producing enough for everyone? There aren't any simple rules one might follow. No matter how much I wish it were otherwise, my personal conclusion is that true efficiency in economic matters is always the same efficiency, no matter where it is practiced. An efficient Communist manager will practice the same techniques in his factory as a capitalistic manager. The capacities of like machinery and of similarly skilled workmen are the same in both societies. But if techniques are the same, human motives, desires and objectives are different. *This difference will reflect itself in great variations in economic performance.*

Thus, when we weigh the performance of social organizations in the twentieth century and how well they serve the wants and needs of individuals, we must first ask ourselves the following questions:

Is there a constant improvement in the standard of living? Is there economic expansion to keep pace with population growth? Does the long-term trend show more and more people enjoying the fruits of progress? Are the few who have traditionally acted as the custodians of accumulated wealth giving way to the many? Is there sufficient flexibility, dynamism and energy to provide for a satisfactory, *peaceful* evolution in the processes of economic change? Finally, is there unanimity that all is well?

If all but the last question can be answered with a yes, then it would seem that Man in some parts of the world has learned to erase the legacy of his past.

Unfortunately, unanimity in the Communist world has come to take on greater meaning than many of the more real standards with which true economic progress can be measured.—H.B.